

Reeths-Puffer Schools

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

Year ended June 30, 2007

Reeths-Puffer Schools

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Reeths-Puffer Schools

Management's Discussion and Analysis

Fiscal Year Ended June 30, 2007

Reeths-Puffer Schools' management discussion and analysis report is intended to assist the reader in focusing on significant financial issues, provide an overview of the District's financial activity and identify changes in its financial position. This section of the financial statements also identifies all material deviations from the financial plan (initial budgets) and discloses individual fund issues and concerns that exist at the close of the fiscal year.

This information is required by GASB 34 (Governmental Accounting Standards Board's Statement No. 34). GASB 34 requires the presentation of two basic types of financial statements; namely, District-wide Financial Statements and Fund Financial Statements.

District-wide Financial Statements

The district-wide statements provide a financial perspective of the District as a whole. These statements use the "full accrual" basis of accounting. There are two (2) district-wide statements: the Statement of Net Assets and the Statement of Activities.

The Statement of Net Assets combines and consolidates governmental funds' current financial resources (short-term expendable resources) with capital assets and long-term obligations, regardless if they are currently available or not.

The Statement of Activities accounts for current year revenues and expenses regardless of when cash is received or paid (full accrual accounting). The intent of this statement is to summarize and simplify the information relative to funding received and expenditures made for various district services.

Fund Financial Statements

Fund statements are reported under the "modified accrual" method of accounting. Under this basis of accounting, revenues are recorded when received, except where they are measurable and available within sixty (60) days of the close of the fiscal year. Expenditures are accounted for in the period that goods and services are used in school programs; therefore, major payments during the summer for payrolls and benefits belonging to last year's instructional program are expensed on June 30th. In addition, capital asset purchases are expensed when placed in service and are not shown as assets in these statements. Debt payments made in the fiscal year are shown as expenditures in the current year and future debt obligations are not recorded here.

Fund types include the General Fund, special revenue funds, debt retirement funds, capital projects funds and the agency funds. The General Fund is used to show the operational financial activities of the district for the fiscal year. The primary funding sources for this fund are from local property taxes, state foundation grant per student,

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Management's Discussion and Analysis

Fiscal Year Ended June 30, 2007

state categorical funding for specific programs, federal grants and inter-governmental transfers. Transactions dealing with the school food service and athletic programs are recorded in the special revenue fund accounts. The debt retirement funds are used to record the debt payments of principal and interest amounts. Local property tax funds are used to pay the majority of debt, with any unmet needs being covered by the Michigan School Bond Loan program. The capital projects funds are used to record the costs associated with the acquisition of land, construction or improvement of school facilities, and for equipment purchases. The agency funds, known as internal activity funds, are held in a trustee capacity for various student or school related groups' financial transactions. Monies in these funds are not available for general school use.

Statement of Net Asset (Deficiency)

<u>Assets</u>	<u>6/30/07</u>	<u>6/30/06</u>
Current Assets	\$14,594,647	\$12,576,395
Capital Assets (cost less depreciation)	47,737,738	48,827,722
Other Long-term Assets	<u>1,370,867</u>	<u>980,049</u>
Net District Assets	\$63,703,252	\$62,384,166

Liabilities

Current Liabilities	\$12,807,099	\$12,869,704
Long-term Liabilities	<u>73,821,584</u>	<u>73,450,659</u>
Total Liabilities	\$86,628,683	\$86,320,363

Net Asset (Deficiency)

Invested in Capital Assets (net of debt)	(\$14,527,582)	(\$15,893,100)
Restricted Funds	752,739	205,125
Unrestricted Funds	<u>(9,150,588)</u>	<u>(8,248,222)</u>
Net Asset (Deficiency)	(\$22,925,431)	(\$23,936,197)

The above stated net asset deficiency is the direct result of the District using capital appreciation bonds, the Michigan School Bond Loan and School Loan Revolving Funds to finance major facility construction projects over the past several years. Under these funding programs, the payments against principal and interest costs are delayed to some point in the future; therefore, interest costs compound due to their non-payment. The negative impact of funding school projects by utilizing these particular funding methods

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Management's Discussion and Analysis
Fiscal Year Ended June 30, 2007**

is further increased by the fact that the facility values associated with the borrowed funds are decreasing each year due to depreciation.

The amount of the negative District net asset value (asset deficiency) will be affected each year until payments against these debts are activated starting in 2012. These particular funding programs have been available for use by public schools where the community's tax base is insufficient to support the immediate costs of debt associated with meeting current facility needs. The particular capital appreciation bonds the District has are not "callable" for refinancing at a lower rate for several years into the future.

Comments on Major Changes to Net Asset (Deficiencies)

Current Assets – Increased due to revenues in excess of expenditures in the General Fund, Athletic Fund, Food Service Fund, and debt service funds.

Capital Assets – Reduced by depreciation.

Other Long-Term Assets – Bond issuance costs increased due to bond refundings during the year.

Current Liabilities – Comparable to prior year.

Long-Term Liabilities – Increased due to accreted interest on the School Bond Loan Fund and the School Loan Revolving Fund.

Continued on next page with Statement of Activities.

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Management's Discussion and Analysis
Fiscal Year Ended June 30, 2007

Statement of Activities

<u>DISTRICT-WIDE REVENUES</u>	<u>6/30/07</u>	<u>6/30/06</u>
Program Revenues		
Charges for services	\$ 892,931	\$ 937,875
Operating grants	5,462,459	4,980,535
General Revenues		
Property taxes	8,340,700	7,848,556
Unrestricted grants	27,427,034	26,940,273
Other revenues	<u>240,971</u>	<u>176,334</u>
Total Revenues	\$42,364,095	\$40,883,573
<u>DISTRICT-WIDE EXPENSES</u>		
Instruction	\$21,104,919	\$20,048,837
Support services	12,817,105	12,886,432
Community services	41,761	86,230
Food service	1,125,776	1,180,925
Athletics	753,139	744,492
Interest on long-term debt	4,142,323	4,403,356
Unallocated depreciation & amortization	<u>1,368,306</u>	<u>1,331,175</u>
Total Expenses	\$41,353,329	\$40,681,447
<u>TOTAL NET ASSET CHANGES</u>	\$ 1,010,766	\$ 202,126
<u>NET ASSET DEFICIENCIES OF PRIOR YEARS</u>	(\$23,936,197)	(\$24,138,323)
<u>NET ASSET DEFICIENCY</u>	(\$22,925,431)	(\$23,936,197)

Reeths-Puffer Schools

Management's Discussion and Analysis

Fiscal Year Ended June 30, 2007

Comments on Changes in Net Asset Deficiency

The change reflected above is a reduction of deficiency of \$1,010,766, or approximately 2% of total assets; therefore, this would indicate that financial conditions were stable and that no significant fiscal issues are of concern to management. The issues of state funding for public education and the continued trend of reduced student enrollments remain as concerns as we are making significant operating budget cuts annually to remain fiscally responsible.

Net Capital Asset Values

	Balance <u>7/1/06</u>	<u>Additions</u>	<u>Deductions</u>	Change in Accumulated <u>Depreciation</u>	Balance <u>6/30/07</u>
Vehicles	\$ 716,924	\$ 186,630	\$ 235,209	\$ (77,274)	\$ 745,619
Facilities	45,580,799	254,478	-	1,023,795	44,811,482
Equipment	1,371,282	37,687	19,985	142,517	1,246,467
Land	934,170	-	-	-	<u>934,170</u>
Net Value of Capital Assets					\$ <u>47,737,738</u>

The School District disposed of five busses and purchased three additional busses. In addition, the District purchased a broiler for the food service department, a pick up truck and a box for the food service delivery truck.

Debt Obligations

Balance <u>7/1/06</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>6/30/07</u>	Due within <u>one year</u>
\$76,809,289	\$39,291,985	\$39,317,791	\$76,783,483	\$2,961,899

The above schedule reflects the District's refunding of the 1997 and 2002 School Building and Site bonds. The refunding will lower the District's debt service payments over the life of the bonds. Also reflected are additions of \$815,054 of accreted interest on capital appreciation bonds, \$490,231 accrued interest on the School Bond Loan Fund,

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Management's Discussion and Analysis
Fiscal Year Ended June 30, 2007

\$71,731 accrued interest and \$617,664 of new draws from the School Loan Revolving Fund. The new draw from the School Loan Revolving Fund was a scheduled draw.

Budgetary Highlights
2006-07 General Fund Operational Budget
Comparison of Budget to Actual Results

	<u>Initial Budget</u>	<u>Amended Budget</u>	<u>Actual Result</u>
<u>REVENUES</u>			
Local	\$ 3,711,300	\$ 3,699,400	\$ 3,616,414
State	27,178,130	27,521,462	27,658,533
Federal	2,252,965	2,497,855	2,367,797
Transfers and Other	<u>1,729,000</u>	<u>1,907,083</u>	<u>2,247,703</u>
Totals	\$34,871,395	\$35,625,800	\$35,890,447
	Variance from Initial Budget	+2.9%	
	Variance from Amended Budget	+0.7%	
<u>EXPENDITURES</u>			
Instruction	\$20,525,915	\$21,333,039	\$21,230,117
Instructional Support	3,996,410	4,272,853	4,245,463
Administration	2,989,890	3,122,773	3,132,365
Maintenance	3,238,500	2,939,300	2,886,744
Transportation	1,914,400	1,734,000	1,632,238
Other costs	<u>1,940,955</u>	<u>1,707,020</u>	<u>1,769,273</u>
Totals	\$34,606,070	\$35,108,985	\$34,896,200
	Variance from Initial Budget	+0.8%	
	Variance from Amended Budget	-0.6%	
<u>RESERVE CHANGE</u>	\$ 265,325	\$ 516,815	\$ 994,247

Reeths-Puffer Schools Management's Discussion and Analysis Fiscal Year Ended June 30, 2007

General Fund Budgetary Highlights

When compared in total, the variances between initial budget, final budget and actual results are minimal considering all the unknowns that exist when the budget is prepared in March of each year. These unknowns consist of such items as student count, employee contracts, state aid, staffing, and tax appeals.

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year. As a matter of practice the District amends its budget periodically. These revisions are made in order to deal with changes in revenues and expenditures.

One of the changes often impacting the District's budget is the revenue received from State of Michigan as the per pupil foundation allowance. In the recent past, schools did not know how much that foundation grant was going to be until well after July 1.

The State's budget for the foundation allowance and categorical revenue was uncertain up until the end of the 06/07 fiscal year. As such, the District opted to delay making any budget amendments until May 2007 with hopes of having more accurate budget information from the State of Michigan.

During year the District made additions to its instruction to reduce class sizes. Reductions were also made in other areas in anticipation of a mid year cut in funding from the State of Michigan. The anticipated reduction in funding did not occur.

Maintenance and transportation budgets were reduced by concessions in the recently settled contract in the area of salaries and benefits. The custodial budget was reduced as a direct result of hiring a private company to provide custodial services.

Reeths-Puffer Schools
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2007

General Fund Year-to-Year Comparison of Actual Results

	<u>Current Year</u>	<u>Prior Year</u>	<u>Difference</u>
<u>REVENUES</u>			
Local	\$ 3,616,414	\$ 3,423,233	\$ 193,181
State	27,658,533	27,257,548	400,985
Federal	2,367,797	2,277,814	89,983
Other	<u>2,247,703</u>	<u>1,964,533</u>	<u>283,170</u>
Total	\$35,890,447	\$34,923,128	\$ 967,319
<u>EXPENDITURES</u>			
Instruction	\$21,230,117	\$19,959,920	\$ 1,270,197
Instructional support	4,245,463	4,181,378	64,085
Administration	3,132,365	3,170,936	(38,571)
Maintenance	2,886,744	3,355,782	(469,038)
Transportation	1,632,238	1,890,472	(258,234)
Other costs	<u>1,769,273</u>	<u>1,984,558</u>	<u>(215,285)</u>
Total	\$34,896,200	\$34,543,046	\$ 353,154

General Fund Revenue and Other Financing by Source

State	\$27,658,533	77.06%
Local	3,616,414	10.14%
Federal	2,367,797	6.54%
Other	<u>2,247,703</u>	<u>6.26%</u>
Total revenue	\$35,890,447	100.00%

As indicated above, funding from the State of Michigan is the District's largest source of revenue. Thus, the financial stability of the District rests primarily with the economic health of the State of Michigan.

Reeths-Puffer Schools

Management's Discussion and Analysis

Fiscal Year Ended June 30, 2007

General Fund Expenditures by Function

Instruction and instructional support	\$25,475,580	73.00%
Maintenance	2,886,744	8.27%
Business & administration	3,132,365	8.96%
Transportation	1,632,238	4.67%
Other	<u>1,769,273</u>	5.10%
Total expenditures	\$34,896,200	100.00%

As indicated above the District spends 73% of its budget on direct classroom instruction (\$20,525,915) and instructional support services (\$3,996,410). It should also be noted that the District spends over 4% of its budget (\$1,632,238) on transportation of its students.

2002 Debt Service Year-to-Year Comparison of Actual Results

	<u>Current Year</u>	<u>Prior Year</u>	<u>Difference</u>
Beginning Balance	\$(1,016,758)	\$ 83,301	\$(1,100,059)
Revenues	681,999	594,501	87,498
Expenditures	1,058,919	1,694,560	635,641
Ending Balance	(1,393,678)	(1,016,758)	(376,920)

The 2002 debt service fund has a negative fund balance as a result of some of the bonds being involved in a refunding issue, and the allocation of property taxes collected during the year to the various debt funds. The District will change the allocation of property taxes collected during the 2007/2008 fiscal year to resolve this balance.

Reeths-Puffer Schools Management's Discussion and Analysis Fiscal Year Ended June 30, 2007

2006-07 Other Governmental Funds

	<u>Food Service</u>	<u>Athletic</u>	<u>Combined Debt</u>	<u>Capital Improv.</u>	<u>Combined</u>
Beginning Balance	\$ 99,286	\$ 11,343	\$ 1,681,066	\$451,171	\$ 2,242,866
Revenues	1,242,299	782,480	42,886,827	199,068	45,110,674
Expenditures	1,180,709	753,139	41,981,956	168,843	44,084,647
Ending Balance	160,876	40,684	2,585,937	481,396	3,268,893

The Food Service Fund ended the year with excess revenue over expenses primarily because of salary and wage concessions the food service workers accepted with the settlement of their most recent contract. In the future, food service will be upgrading their point of sale computer system. The upgrade will decrease the food service fund balance.

The Athletic Fund increased its fund balance by \$29,341. The primary reason for the increase was the increase in the general funds transfer to athletic, and increases in player fees.

The ending balance in the debt funds will be reduced by the District reducing the amount of its borrowing from the Michigan School Bond Loan Fund this year. The state guidelines call for this fund to have a minimal balance at the end of each year. During the year the District issued refunding bonds for the 1997 and 2002 debt issues. The proceeds from the refunding was \$37,280,000 plus a premium of \$583,747. The proceeds from the refunding was placed with an escrow agent to pay the 1997 and 2002 issues at maturity. Costs related to the refunding were \$483,419. The refunding will lower the District's debt service requirements over the life of the bonds.

The capital improvement fund revenue came primarily from the General Fund transfer of \$190,000 to the Capital Improvement Fund. The \$190,000 will be used to purchase busses during the 2007/2008 fiscal year. Expenditures were for a bus purchase and various building improvements.

Reeths-Puffer Schools Management's Discussion and Analysis Fiscal Year Ended June 30, 2007

Currently known facts, decisions, and conditions affecting the 2007/08 School Year

Contract Negotiations

The District has three bargaining units with contracts. Two of those units (Maintenance/food service/transportation and the Educational Support Personnel Association) have contracts which will expire at the end of the 2007/08 fiscal year. The certified staffs' (teachers) contract will expire on August 31, 2007.

Initial General Fund Budget

The current adopted budget for the 2007/08 fiscal year has a projected surplus of approximately \$183,340. The budget was based on a foundation base of \$7,085 and a decline in enrollment of 62 students. This decline is a direct result of declining birth rates in Muskegon County.

These projections are the District's best estimate based on Michigan's current economic condition. The State of Michigan has not adopted a budget for its 2007/2008 fiscal year, which begins October 1.

Requests for Information

This financial report is designed to provide the District's citizens, taxpayers, parents, students, investors, and creditors with a general overview of the District's finances, and to show how the District is accountable for the money it receives. Questions concerning any of the information provided in this report, or requests for additional financial information should be addressed to Frank Verhoven, Assistant Superintendent of Finance and Operations, Reeths-Puffer Schools, 991 W. Giles Road, Muskegon, Michigan 49445, telephone number 231-719-3110.

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

August 30, 2007

Board of Education
Reeths-Puffer Schools
Muskegon, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Reeths-Puffer Schools (the School District), as of and for the year ended June 30, 2007, which collectively comprise the Schools District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Reeths-Puffer Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Reeths-Puffer Schools, as of June 30, 2007, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards* we have also issued our report dated August 30, 2007, on our consideration of Reeths-Puffer Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

BRICKLEY DELONG

Board of Education
August 30, 2007
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The management's discussion and analysis and budgetary comparison information on pages i - xi and page 27 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The statistical data included on pages 29 - 38 has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

Brickley DeLong, PLC

Reeths-Puffer Schools
STATEMENT OF NET ASSETS (DEFICIT)
June 30, 2007

	ASSETS	Governmental activities
CURRENT ASSETS		
Cash and cash equivalents		\$ 6,713,629
Investments		1,000,000
Receivables		49,638
Due from other governmental units		6,696,179
Inventories		36,995
Prepaid items		<u>98,206</u>
Total current assets		14,594,647
NONCURRENT ASSETS		
Capital assets, net		
Nondepreciable		934,170
Depreciable		46,803,568
Bond issuance costs, net		968,395
Note receivable		<u>402,472</u>
Total noncurrent assets		<u>49,108,605</u>
Total assets		63,703,252
	LIABILITIES AND NET ASSETS (DEFICIT)	
CURRENT LIABILITIES		
State aid loan		4,730,000
Accounts payable and accrued liabilities		4,451,100
Due to other governmental units		649,576
Deferred revenue		14,524
Bonds and other obligations, due within one year		<u>2,961,899</u>
Total current liabilities		12,807,099
NONCURRENT LIABILITIES		
Bonds and other obligations, less amounts due within one year		<u>73,821,584</u>
Total liabilities		<u>86,628,683</u>
NET ASSETS (DEFICIT)		
Invested in capital assets, net of related debt		(14,527,582)
Restricted		
Debt service		752,739
Unrestricted		<u>(9,150,588)</u>
Total net assets (deficit)		<u>\$ (22,925,431)</u>

The accompanying notes are an integral part of this statement.

Reeths-Puffer Schools
STATEMENT OF ACTIVITIES
For the year ended June 30, 2007

<i>Functions/Programs</i>	Expenses	Program Revenue		Net (Expense) Revenue and Changes in Net Assets
		Charges for services	Operating grants and contributions	Governmental activities
Governmental activities				
Instruction	\$ 21,104,919	\$ 2,500	\$ 1,876,796	\$ (19,225,623)
Support services	12,817,105	106,961	2,916,810	(9,793,334)
Community services	41,761	15,000	24,850	(1,911)
Food services	1,125,776	595,589	644,003	113,816
Athletics	753,139	172,881	-	(580,258)
Interest on long-term debt	4,142,323	-	-	(4,142,323)
Unallocated depreciation and amortization	1,368,306	-	-	(1,368,306)
Total governmental activities	<u>\$ 41,353,329</u>	<u>\$ 892,931</u>	<u>\$ 5,462,459</u>	(34,997,939)
General revenues				
Property taxes levied for				
General purposes				3,295,626
Debt service				5,045,074
Grants and contributions not restricted to specific programs				27,427,034
Investment earnings				198,224
Miscellaneous				<u>42,747</u>
Total general revenues				<u>36,008,705</u>
Change in net assets				1,010,766
Net assets (deficit) at July 1, 2006				<u>(23,936,197)</u>
Net assets (deficit) at June 30, 2007				<u>\$ (22,925,431)</u>

The accompanying notes are an integral part of this statement.

Reeths-Puffer Schools
BALANCE SHEET
Governmental Funds
June 30, 2007

	General Fund	2002 Debt Service	Other governmental funds	Total governmental funds
ASSETS				
Cash and cash equivalents	\$ 4,890,806	\$ 55,381	\$ 1,767,442	\$ 6,713,629
Investments	1,000,000	-	-	1,000,000
Receivables	49,638	-	-	49,638
Due from other governmental units	6,696,179	-	-	6,696,179
Due from other funds	251,505	75,000	2,421,480	2,747,985
Inventories	-	-	36,995	36,995
Prepaid items	98,206	-	-	98,206
Total assets	<u>\$ 12,986,334</u>	<u>\$ 130,381</u>	<u>\$ 4,225,917</u>	<u>\$ 17,342,632</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
State aid loan	\$ 4,730,000	\$ -	\$ -	\$ 4,730,000
Accounts payable	306,308	-	21,207	327,515
Accrued liabilities	3,683,491	-	-	3,683,491
Due to other governmental units	649,576	-	-	649,576
Due to other funds	298,797	1,524,059	925,129	2,747,985
Deferred revenue	3,836	-	10,688	14,524
Total liabilities	9,672,008	1,524,059	957,024	12,153,091
Fund balances				
Reserved				
Inventories	-	-	36,995	36,995
Prepaid items	98,206	-	-	98,206
Capital projects	-	-	6,411	6,411
Debt service	-	(1,393,678)	2,585,937	1,192,259
Unreserved				
Undesignated				
General Fund	3,216,120	-	-	3,216,120
School service	-	-	164,565	164,565
Capital projects	-	-	474,985	474,985
Total fund balances (deficit)	<u>3,314,326</u>	<u>(1,393,678)</u>	<u>3,268,893</u>	<u>5,189,541</u>
Total liabilities and fund balances	<u>\$ 12,986,334</u>	<u>\$ 130,381</u>	<u>\$ 4,225,917</u>	<u>\$ 17,342,632</u>

The accompanying notes are an integral part of this statement.

Reeths-Puffer Schools
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET ASSETS (DEFICIT)**
 June 30, 2007

Total fund balance—governmental funds	\$	5,189,541
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Amounts reported for governmental activities in the Statement of Net Assets (Deficit)
 are different because:

Capital assets used in governmental activities are not current financial resources and
 are not reported in the governmental funds.

Cost of capital assets	\$ 62,334,699	
Accumulated depreciation	<u>(14,596,961)</u>	47,737,738

Bond issuance costs are not capitalized and amortized in the governmental funds.

Bond issuance costs	1,211,302	
Accumulated amortization	<u>(242,907)</u>	968,395

Other long-term note receivable in governmental activities is not reported in the
 governmental funds.

402,472

Accrued interest in governmental activities is not reported in the governmental funds.

(440,094)

Long-term obligations in governmental activities are not due and payable in the current
 period and are not reported in the governmental funds.

Bonds and notes payable	(76,179,241)	
Early retirement incentives	(394,534)	
Compensated absences	<u>(209,708)</u>	<u>(76,783,483)</u>

Net assets (deficit) of governmental activities in the Statement of Net Assets (Deficit)	\$	<u><u>(22,925,431)</u></u>
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The accompanying notes are an integral part of this statement.

Reeths-Puffer Schools
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICIT)
Governmental Funds
For the year ended June 30, 2007

	General Fund	2002 Debt Service	Other governmental funds	Total governmental funds
REVENUES				
Local sources				
Property taxes	\$ 3,295,626	\$ 412,795	\$ 4,632,279	\$ 8,340,700
Investment earnings	139,509	5,705	53,010	198,224
Fees and charges	127,211	-	764,248	891,459
Other	54,068	-	4,222	58,290
Total local sources	3,616,414	418,500	5,453,759	9,488,673
State sources	27,658,533	-	68,009	27,726,542
Federal revenues	2,367,797	-	575,994	2,943,791
Total revenues	33,642,744	418,500	6,097,762	40,159,006
EXPENDITURES				
Instruction	21,230,117	-	-	21,230,117
Support services	12,569,281	-	-	12,569,281
Community services	41,761	-	-	41,761
Food services	-	-	1,180,709	1,180,709
Athletics	-	-	753,139	753,139
Debt service				
Principal	-	450,000	2,281,867	2,731,867
Interest and other charges	-	608,919	1,836,342	2,445,261
Bond issuance costs	-	-	431,563	431,563
Capital projects	-	-	168,843	168,843
Total expenditures	33,841,159	1,058,919	6,652,463	41,552,541
Excess (deficiency) of revenues over (under) expenditures	(198,415)	(640,419)	(554,701)	(1,393,535)
OTHER FINANCING SOURCES (USES)				
Transfers from other governmental units and other transactions	2,247,703	-	-	2,247,703
Loan proceeds	-	263,499	354,165	617,664
Proceeds of refunding bonds	-	-	37,280,000	37,280,000
Premium proceeds of refunding bonds	-	-	583,747	583,747
Transfers in	-	-	795,000	795,000
Transfers out	(795,000)	-	-	(795,000)
Payment to refunded bond escrow agent	-	-	(37,380,298)	(37,380,298)
Discounts on debt issuance	-	-	(51,886)	(51,886)
Transfers to other governmental units and other transactions	(260,041)	-	-	(260,041)
Total other financing sources (uses)	1,192,662	263,499	1,580,728	3,036,889
Net change in fund balances (deficit)	994,247	(376,920)	1,026,027	1,643,354
Fund balances (deficit) at July 1, 2006	2,320,079	(1,016,758)	2,242,866	3,546,187
Fund balances (deficit) at June 30, 2007	\$ 3,314,326	\$ (1,393,678)	\$ 3,268,893	\$ 5,189,541

The accompanying notes are an integral part of this statement.

Reeths-Puffer Schools
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**

For the year ended June 30, 2007

Net change in fund balances—total governmental funds	\$	1,643,354
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets and bond issuance costs as expenditures; in the Statement of Activities these costs are depreciated and amortized over their estimated useful lives, respectively.

Depreciation and amortization expense	\$ (1,368,307)	
Capital outlay and bond issuance costs	<u>685,811</u>	(682,496)

Governmental funds report the entire proceeds from the sale of capital assets as revenue, but the Statement of Activities reports only the gain or loss on the sale of capital assets.	(16,850)
----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	----------

Debt proceeds are other financing sources in the governmental funds, but the proceeds increase long-term obligations in the Statement of Net Assets (Deficit).	(39,104,149)
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Repayment of principal on long-term obligations is an expenditure in the governmental funds, but the repayment reduces long-term obligations in the Statement of Net Assets (Deficit).	39,009,158
----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	------------

Interest expense on long-term debt is recorded in the Statement of Activities when incurred, but is not reported in governmental funds until paid.	40,952
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Compensated absences and early retirement incentives are reported on the accrual method in the Statement of Activities and reported as expenditures when financial resources are used in the governmental funds.	<u>120,797</u>
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Change in net assets (deficit) of governmental activities	<u><u>\$ 1,010,766</u></u>
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The accompanying notes are an integral part of this statement.

Reeths-Puffer Schools
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
Fiduciary Funds
June 30, 2007

	Agency funds
	<u> </u>
ASSETS	
Cash and cash equivalents	\$ 181,298
	<u> </u>
LIABILITIES	
Deposits held for others	\$ 181,298
	<u> </u>

The accompanying notes are an integral part of this statement.

Reeths-Puffer Schools
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Reeths-Puffer Schools (School District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the School District's accounting policies are described below.

Reporting Entity

The School District is governed by an elected seven-member Board of Education (Board), which has responsibility and control over all activities related to public school education within the School District. The School District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the School District is not included in any other governmental reporting entity as defined by generally accepted accounting principles. In addition, the School District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No. 14. Board members have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters.

District-wide and Fund Financial Statements

District-wide Financial Statements – The primary focus of district-wide financial statements is on the sustainability of the School District as an entity and the change in the School District's net assets resulting from the current year's activities. The district-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the School District. For the most part, the effect of interfund activity has been removed from these statements. The district-wide financial statements categorize primary activities as either governmental or business type. All of the School District's activities are classified as governmental activities.

In the district-wide Statement of Net Assets, the governmental activities column (a) is presented on a consolidated basis and (b) is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The School District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. The School District first utilizes restricted resources to finance qualifying activities. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district, and other unrestricted items are not included as program revenues but instead as *general revenues*.

The district-wide Statement of Activities reports both the gross and net cost of each of the School District's functions. The functions are also supported by general revenues (property taxes, certain intergovernmental revenues and charges, etc.). The Statement of Activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants. The School District does not allocate indirect costs.

Reeths-Puffer Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

District-wide and Fund Financial Statements—Continued

Fund financial statements – Fund financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental funds – Governmental funds are those funds through which most School District functions typically are financed. The acquisition, use and balances of the School District's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The School District reports the following major governmental funds:

- The *General Fund* is the School District's primary operating fund. It accounts for all financial resources of the School District, except those required to be accounted for in another fund.
- The *2002 Debt Service Fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt, 2002 School Building and Site General Obligation Bond.

The other nonmajor governmental funds are reported within the following types:

- The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The School District accounts for its food service and athletic activities in the school service special revenue funds.
- The *debt service funds* account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.
- The *capital projects funds* account for the receipt of debt proceeds and the acquisition of fixed assets or construction of major capital projects.

Fiduciary funds – Fiduciary funds account for assets held by the School District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the School District under the terms of a formal trust agreement. Fiduciary funds are not included in the district-wide statements.

- The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the School District holds for others in an agency capacity (primarily student activities).

Reeths-Puffer Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method

The district-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants, categorical aids and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. With this measurement focus, operating statements present increases and decreases in net current assets, and unreserved fund balance is a measure of available spendable resources. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the School District.

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the school districts. For the year ended June 30, 2007, the foundation allowance was based on pupil membership counts taken in February and September of 2006.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period and is funded through payments from October 2006 to August 2007. Thus, the unpaid portion at June 30, 2007 is reported as due from other governmental units.

The School District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

Reeths-Puffer Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Other Accounting Policies

Deposit and Investments

Cash and cash equivalents include cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

The School District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standard also provides that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the School District intends to hold the investment until maturity.

State statutes authorize the School District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The School District is also authorized to invest in U. S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above. The School District's deposits and investments are in accordance with statutory authority.

Interfund Receivables and Payables

Activities between funds that are representative of lending or borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". The School District had no advances between funds.

Property Taxes

Property taxes levied by the School District are collected by various municipalities and periodically remitted to the School District. The taxes are levied as of December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2007, the School District levied the following amounts per \$1,000 of taxable valuation:

<u>Fund</u>	<u>Mills</u>
General Fund—Non-homestead	18.00
Debt service fund—Homestead and non-homestead	8.37

Reeths-Puffer Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Other Accounting Policies—Continued

Inventories

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventories are expendable supplies held for consumption and are recorded as expenditures when consumed rather than when purchased. Inventories for commodities are recorded as revenue when utilized.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond the fiscal year end are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure is reported in the year in which services are consumed.

Restricted Assets

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include bond proceeds to be used for capital construction.

Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received. Capital assets are defined by the School District as assets with an initial cost of more than \$5,000 and an estimated useful life in excess of one year. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets. The School District does not have infrastructure-type assets.

Depreciation is provided on the straight-line basis over the following useful lives:

Building and improvements	20-50 years
Buses and other vehicles	10 years
Furniture and other equipment	10-20 years

Land and certain land improvements are deemed to be inexhaustible capital assets, as the economic benefit or service potential is used up so slowly that the estimated useful life is extraordinarily long. These inexhaustible assets are not depreciated.

Compensated Absences

The liability for compensated absences reported in the district-wide statement consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

For fund financial statements, no compensated absence liability is reported for current employees and a compensated absence liability is reported for terminated employees only when the termination date is on or before year end.

Early Retirement Incentives

For district-wide financial statements, the liability for early retirement incentives is reported when legally enforceable. For fund financial statements, the liability for early retirement incentives is reported either 1) on the due date when there is a specified due date or 2) on the retirement date if it is before year end, when there is not a specified legally enforceable due date.

Reeths-Puffer Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Other Accounting Policies—Continued

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue. On fund financial statements, receivables that will be collected after the available period are reported as deferred revenue.

Long-term Obligations

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts, as well as issuance cost, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net Assets In District-wide Financial Statements

Net assets represent the difference between assets and liabilities and are segregated into the following components:

- **Invested in capital assets, net of related debt** consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets. Pursuant to the Michigan School Accounting Manual Referent Group guidance for Michigan public school districts, School Bond Loan Fund and School Loan Revolving Fund debt is not considered to be capital related debt.
- **Restricted net assets** result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributions, and the like, or imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net assets** consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources which are imposed by management, but can be removed or modified.

Fund Equity In Fund Financial Statements

The School District reserves those portions of governmental fund balances that are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriations for expenditures. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund balance reserves are established for encumbrances, inventory of materials and supplies, prepaid items, deferred charges and advances to other funds, when applicable. Designations of fund balance represent tentative management plans that are subject to change.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statement and accompanying notes. Actual results may differ from those estimates.

Reeths-Puffer Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General Fund and special revenue funds. All annual appropriations lapse at year end.

The School District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by Board of Education resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.
4. The Assistant Superintendent is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the Board of Education.
5. Formal budgetary integration is employed as a management control device during the year.
6. The budget is amended during the year with supplemental appropriations, the last one approved prior to June 30, 2007. The School District does not consider these amendments to be significant.

Excess of Expenditures Over Appropriations

For the year ended June 30, 2007, expenditures exceeded appropriations in support services for instruction staff by \$66,982 and outgoing transfers and other transactions by \$175,041.

Fund Deficit

As of June 30, 2007, the 2002 Debt Service Fund had a deficit of \$1,393,678. The deficit will be eliminated through future operations, which may include interfund transfers.

School Bond Compliance

The capital projects funds include capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the School District has complied with the applicable provisions of §1351(a) of the State of Michigan's School Code.

Following is a summary of the revenue and expenditures in the 2002 Capital Projects Fund from the inception of the funds through June 30, 2007.

	2002
	Capital
	<u>Projects Fund</u>
Revenue and bond proceeds	\$ 22,864,188
Expenditures	22,840,926

Reeths-Puffer Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE C—DEPOSITS AND INVESTMENTS

As of June 30, 2007, the School District had no investments.

Interest rate risk. In accordance with its investment policy, the School District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the School District's cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to the three highest classifications issued by nationally recognized statistical rating organizations. The School District has no investment policy that would further limit its investment choices.

Concentration of credit risk. The School District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the School District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. As of June 30, 2007, \$4,984,563 of the School District's bank balance of \$8,184,563 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk - investments. The School District does not have a custodial credit risk policy for investments. This is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Foreign currency risk. The School District is not authorized to invest in investments which have this type of risk.

NOTE D—CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007 was as follows:

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
Capital assets, not being depreciated:				
Land	\$ 474,150	\$ -	\$ -	\$ 474,150
Land improvements	460,020	-	-	460,020
Construction in progress	224,547		224,547	-
Total capital assets, not being depreciated	1,158,717	-	224,547	934,170

Reeths-Puffer Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE D—CAPITAL ASSETS—Continued

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
Capital assets, being depreciated:				
Buildings and improvements	\$ 56,936,519	\$ 254,478	\$ -	\$ 57,190,997
Equipment	1,595,259	37,687	19,985	1,612,961
Vehicles	2,645,150	186,630	235,209	2,596,571
Total capital assets, being depreciated	61,176,928	478,795	255,194	61,400,529
Less accumulated depreciation:				
Buildings and improvements	11,355,720	1,023,795	-	12,379,515
Equipment	223,977	145,652	3,135	366,494
Vehicles	1,928,226	157,935	235,209	1,850,952
Total accumulated depreciation	13,507,923	1,327,382	238,344	14,596,961
Total capital assets, being depreciated, net	47,669,005	(848,587)	16,850	46,803,568
Capital assets, net	\$ 48,827,722	\$ (848,587)	\$ 241,397	\$ 47,737,738

Depreciation

Depreciation expense has been charged as unallocated depreciation.

NOTE E—BOND ISSUANCE COSTS

Bond issuance cost activity for the year ended June 30, 2007 was as follows:

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
Bond issuance costs	\$ 779,739	\$ 431,563	\$ -	\$ 1,211,302
Less accumulated amortization	201,982	40,925	-	242,907
Bond issuance costs, net	\$ 577,757	\$ 390,638	\$ -	\$ 968,395

Amortization

Amortization expense has been charged as unallocated amortization.

Reeths-Puffer Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE F—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund Obligations

The composition of interfund balances as of June 30, 2007 is as follows:

Due to/from other funds:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General Fund	Other governmental funds	\$ 251,505
2002 Debt Service Fund	Other governmental funds	75,000
Other governmental funds	Other governmental funds	2,152,999
Other governmental funds	General Fund	<u>268,481</u>
		<u>\$ 2,747,985</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund Transfers

The General Fund transferred \$605,000 to the Athletic Fund to finance operations and \$190,000 to the Equipment and Capital Improvement Fund to help finance school bus purchases.

NOTE G—SHORT TERM DEBT

The School District issues State of Michigan school aid anticipation notes to provide short-term operating funds. The notes are obligations of the General Fund, which received the note proceeds, and are backed by the full faith, credit and resources of the School District. The short-term debt activity for the year ended June 30, 2007 follows:

	<u>Balance</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2007</u>
State aid anticipation note				
2005/2006 2.92% due August 2006	\$ 4,750,000	\$ -	\$ 4,750,000	\$ -
2006/2007 3.68% due August 2007	<u>-</u>	<u>4,730,000</u>	<u>-</u>	<u>4,730,000</u>
	<u>\$ 4,750,000</u>	<u>\$ 4,730,000</u>	<u>\$ 4,750,000</u>	<u>\$ 4,730,000</u>

Reeths-Puffer Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE H—LONG-TERM OBLIGATIONS

The School District issues bonds, notes and other contractual commitments to provide for the acquisition, construction and improvement of major capital facilities and for the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations include School Bond Loan Fund, School Loan Revolving Fund, and an equipment loan.

Summary of Long-term Obligations

The following is a summary of long-term obligations activity for the School District for the year ended June 30, 2007:

	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007	Due within one year
Governmental activities:					
Bonds	\$ 64,228,099	\$ 38,095,054	\$ 38,971,867	\$ 63,351,286	\$ 2,709,082
Plus issuance premium	476,102	583,747	34,715	1,025,134	56,335
Less issuance discount	-	(51,856)	(1,512)	(50,344)	(2,593)
Less deferred amount on refunding	(110,635)	(702,422)	(20,449)	(792,608)	(43,594)
	<u>64,593,566</u>	<u>37,924,523</u>	<u>38,984,621</u>	<u>63,533,468</u>	<u>2,719,230</u>
Other obligations	11,490,684	1,179,626	24,537	12,645,773	26,235
Early retirement incentives	524,468	88,500	218,434	394,534	216,434
Compensated absences	200,571	99,336	90,199	209,708	-
	<u>\$ 76,809,289</u>	<u>\$ 39,291,985</u>	<u>\$ 39,317,791</u>	<u>\$ 76,783,483</u>	<u>\$ 2,961,899</u>

In the previous schedule, the additions for bonds represents transactions in connection with the refunding of the 1997 and 2002 School Building and Site bonds and \$815,054 of accreted interest on capital appreciation bonds. The additions for other obligations includes \$490,231 of accrued interest on the School Bond Loan Fund, \$617,664 of new draws and \$71,731 of accrued interest on the School Loan Revolving Fund.

General obligation bonds consist of the following:

1990 Building General Obligation Bond payable in annual installments ranging from \$149,700 to \$154,082 due May 2008 to 2009; plus interest at 7.8% payable annually	\$ 303,773
1992 School Building and Site Capital Appreciation Bond payable in annual installments ranging from \$317,056 to \$452,600 due May 2013 to 2022; plus interest ranging from 6.8% to 6.85% payable annually	10,326,700

Reeths-Puffer Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE H—LONG-TERM OBLIGATIONS—Continued

Summary of Long-term Obligations—Continued

Governmental activities:—Continued

General obligation bonds—Continued

1992 Refunding Capital Appreciation Bond payable in annual installments ranging from \$125,100 to \$209,300 due May 2013 to 2017; plus interest at 6.8% payable annually	\$ 2,233,341
2002 School Building and Site General Obligation Bond payable in annual installments ranging from \$475,000 to \$600,000 due May 2008 to 2012; plus interest ranging from 3.55% to 5.5% payable semi-annually	2,650,000
Durant obligations payable in annual installments ranging from \$47,841 to \$321,458 due May 2009 to 2013; plus interest at approximately 4.76%. The School District is only obligated to make the annual payments to the extent of annual State of Michigan state school aid appropriations	402,472
2005 Refunding General Obligation Bond payable in annual installments ranging from \$125,000 to \$2,085,000 due May 2008 to 2026; plus interest ranging from 3% to 5% payable semi-annually Plus issuance premium Less deferred amount on refunding	10,155,000 452,197 (105,080)
2006 Refunding General Obligation Bond payable in annual installments ranging from \$50,000 to \$2,280,000 due May 2008 to 2027; plus interest ranging from 4% to 4.2% payable annually Less issuance discount Less deferred amount on refunding	5,270,000 (50,344) (171,959)
2007 Refunding General Obligation Bond payable in annual installments ranging from \$950,000 to \$2,795,000 due May 2008 to 2025; plus interest ranging from 4% to 5% payable annually Plus issuance premium Less deferred amount on refunding	32,010,000 572,937 <u>(515,569)</u>
Total bonded debt	63,533,468

Reeths-Puffer Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE H—LONG-TERM OBLIGATIONS—Continued

Summary of Long-term Obligations—Continued

Governmental activities:—Continued

Other obligations

School Bond Loan Fund General Obligation

Bond payable as soon as annual tax collections exceed annual debt service payment requirements or May 2033, whichever is sooner; interest payable of \$2,668,507 is included at rates ranging from 2.625% to 4.875%

\$ 10,818,395

School Loan Revolving Fund payable no later than May 2033; interest payable of \$103,124 is included at rates ranging from 4.039% to 5.4118%

1,724,659

Capital lease obligation payable in monthly installments of \$2,694 including interest of 6.77%; final payment due February 2011

102,719

Total other obligations

12,645,773

Early retirement incentives

394,534

Compensated absences

209,708

\$ 76,783,483

The Durant bonds, including interest, were issued in anticipation of payment to the School District as appropriated and to be appropriated by the State of Michigan under Section 11g(3) of Act 94 (State Aid payments). The School District has pledged and assigned to the bondholder all rights to these State Aid payments as security for the Bond. The note receivable on the Statement of Net Assets is for the future appropriations from the State of Michigan to pay the Durant obligations.

Reeths-Puffer Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE H—LONG-TERM OBLIGATIONS—Continued

Summary of Long-term Obligations—Continued

The annual requirements of principal and interest to amortize bonded debt, capital leases, and early retirement incentives outstanding as of June 30, 2007 follows:

Year ending June 30,	Principal	Interest	Total
2008	\$ 2,951,751	\$ 2,643,212	\$ 5,594,963
2009	3,137,759	2,595,504	5,733,263
2010	3,721,211	1,981,688	5,702,899
2011	4,066,519	1,885,850	5,952,369
2012	4,018,592	1,622,727	5,641,319
2013-2017	16,736,177	11,219,527	27,955,704
2018-2022	15,421,530	12,393,690	27,815,220
2023-2027	13,795,000	1,682,375	15,477,375
	<u>\$ 63,848,539</u>	<u>\$ 36,024,573</u>	<u>\$ 99,873,112</u>

NOTE I—EMPLOYEE BENEFITS

Employee Retirement System – Defined Benefit Plan

Plan description – The School District contributes to the statewide Michigan Public School Employees' Retirement System (MPSERS), a cost sharing multiple-employer defined benefit pension plan administered by the nine member board of the MPSERS. The MPSERS provides retirement benefits and post-retirement benefits for health, dental and vision. The MPSERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPSERS issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. That report may be obtained by writing to or calling:

Office of Retirement Systems
Michigan Public School Employees Retirement System
P.O. Box 30171
Lansing Michigan 48909
1-800-381-5111

Funding policy – Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9 percent of gross wages. The MIP contribution rate was 4.0 percent from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9 percent. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3 percent of the first \$5,000; 3.6 percent of \$5,001 through \$15,000; 4.3 percent of all wages over \$15,000.

Reeths-Puffer Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE I—EMPLOYEE BENEFITS—Continued

Employee Retirement System – Defined Benefit Plan—Continued

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9 percent of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPSERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The School District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate for the year ended June 30, 2007 was 17.74 percent of payroll. The contribution requirements of plan members and the School District are established and may be amended by the MPSERS Board of Trustees. The School District contributions to MPSERS for the year ended June 30, 2007, 2006 and 2005 were approximately \$3,059,000, \$3,172,000 and \$2,957,000, respectively, and were equal to the required contribution for those years.

The School District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

Other post-employment benefits – Under the MPSERS Act, all retirees have the option of continuing health, dental and vision coverage.

Post-Retirement Health Care Benefits

Pursuant to employment contracts, certain employees electing early retirement are provided post-retirement health benefits which vary depending on the plan chosen and their age at retirement. Health care benefits terminate the month the person attains eligibility for full social security benefits, or dies, whichever occurs first; however, no more than ten (10) years of payments will be made. The School District records expenditures for these benefits when premiums are due. Future benefits will be funded out of future revenues. The cost of these benefits for the year ended June 30, 2007 was approximately \$109,000 provided to 70 participants.

NOTE J—COMMITMENTS AND CONTINGENCIES

Commitments –The School District has lease agreements expiring at various dates through January 2012. Expense for the year ended June 30, 2007 was approximately \$64,800. The following is a schedule of future minimum rental payments required under operating leases for School District office equipment.

Year ending June 30,	Amount
2008	\$ 98,700
2009	98,700
2010	98,700
2011	85,000
2012	33,900
	<u>\$ 415,000</u>

Reeths-Puffer Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE J—COMMITMENTS AND CONTINGENCIES—Continued

Contingencies –The School District participates in grant programs, which are subject to program compliance audits by the grantor or its representatives. Such audits of these programs may be performed at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the School District expects such amounts, if any, to be immaterial.

NOTE K—OTHER INFORMATION

Economic Dependence – Prior years revision of the State of Michigan (State) school aid formula for local public schools significantly increased State school aid, and the change in property tax laws significantly decreased local property tax revenues. As a result, State school aid represents approximately 77 percent of General Fund revenues.

Risk Management – The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. The School District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The School District pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The workers' compensation pool and the property casualty pool maintain reinsurance for claims generally in excess of \$500,000 for each occurrence with the overall maximum coverage varying depending on the specific type coverage of reinsurance.

The School District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2007 or any of the prior three years.

NOTE L—SUBSEQUENT EVENT

In August 2007, the School District received the proceeds of a \$4,100,000 State of Michigan (State) school aid anticipation note payable. The note payable is not subject to redemption prior to its maturity in August 2008 and bears interest at the rate of 3.68 percent per annum. The School District pledged for payment of the note payable, the amount of State school aid to be received plus the full faith, credit, and resources of the School District.

REQUIRED SUPPLEMENTARY INFORMATION

Reeths-Puffer Schools
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
General Fund
For the year ended June 30, 2007

	Budgeted amounts			Variance with final budget- positive (negative)
	Original	Final	Actual	
REVENUES				
Local sources	\$ 3,711,300	\$ 3,699,400	\$ 3,616,414	\$ (82,986)
State sources	27,178,130	27,521,462	27,658,533	137,071
Federal sources	2,252,965	2,497,855	2,367,797	(130,058)
Incoming transfers and other transactions	1,729,000	1,907,083	2,247,703	340,620
Total revenues	34,871,395	35,625,800	35,890,447	264,647
EXPENDITURES				
Instruction				
Basic programs	16,348,305	16,874,598	16,813,904	60,694
Added needs	4,177,610	4,458,441	4,416,213	42,228
Support services				
Pupil	2,743,755	2,968,632	2,874,260	94,372
Instructional staff	1,252,655	1,304,221	1,371,203	(66,982)
General administration	483,400	493,427	445,147	48,280
School administration	1,958,340	1,943,213	1,978,288	(35,075)
Business	548,150	686,133	708,930	(22,797)
Operations and maintenance	3,238,500	2,939,300	2,886,744	52,556
Pupil transportation services	1,914,400	1,734,000	1,632,238	101,762
Central	668,680	653,685	657,824	(4,139)
Other	153,800	132,955	14,647	118,308
Community services	78,475	40,380	41,761	(1,381)
Outgoing transfers and other transactions	1,040,000	880,000	1,055,041	(175,041)
Total expenditures	34,606,070	35,108,985	34,896,200	212,785
Excess of revenues over expenditures	\$ 265,325	\$ 516,815	994,247	\$ 477,432
Fund balance at July 1, 2006			2,320,079	
Fund balance at June 30, 2007			\$ 3,314,326	

STATISTICAL DATA (unaudited)

Reeths-Puffer Schools
HISTORICAL PROPERTY VALUATIONS
 Year ended June 30, 2007
 (Unaudited)

Levy Year	Homestead	Non-homestead	Combined taxable value	Increase over prior year
2006	\$ 410,472,924	\$ 183,504,591	\$ 593,977,515	6.2 %
2005	384,608,266	174,466,456	559,074,722	6.2
2004	365,984,337	160,408,107	526,392,444	5.7
2003	343,649,598	154,448,429	498,098,027	6.1
2002	324,221,451	145,397,608	469,619,059	5.9
2001	296,954,146	146,473,391	443,427,537	6.5
2000	275,336,791	140,907,680	416,244,471	7.5
1999	255,066,599	132,286,453	387,353,052	6.7
1998	241,644,205	122,881,053	364,525,258	4.3
1997	222,281,455	127,119,785	349,401,240	6.4

Notes:

6.0 mills levied by the State of Michigan on both Homestead and Non-Homestead taxable value.

18.0 mills local operating millage levied on Non-Homestead taxable value only.

Debt levy on both Homestead and Non-Homestead taxable value.

Source: Muskegon County Equalization Department

Reeths-Puffer Schools
MAJOR TAXPAYERS
Year ended June 30, 2007
(Unaudited)

Taxable values as of June 30, 2007

<u>Taxpayer</u>	<u>Product/service</u>	<u>Taxable value</u>	<u>IFT valuation</u>	<u>Total value</u>
Consumers Energy	Utility	\$ 73,483,277	\$ -	\$ 73,483,277
Cedar Fair LP	Amusement park	10,128,912	-	10,128,912
Bayer Cropscience	Fertilizer	3,003,576	6,585,012	9,588,588
Meijer, Inc.	Retail	5,593,279	-	5,593,279
Nugent Sand Co. Inc.	Sand mining	4,062,453	-	4,062,453
Michigan Consolidated Gas Company	Utility	3,666,101	-	3,666,101
Land Management LLC	Rental real estate	1,911,496	-	1,911,496
B Park Meadows LLC	Mobile home park	1,709,079	-	1,709,079
Bolema Lumber & Supply	Rental real estate	1,412,851	-	1,412,851
Comcast of Muskegon	Cable TV	1,098,400	-	1,098,400
		<u>\$ 106,069,424</u>	<u>\$ 6,585,012</u>	<u>\$ 112,654,436</u>

The taxable values of the above taxpayers represent 19 percent of the School District's 2006 taxable value of \$593,977,515.

Reeths-Puffer Schools
SCHOOL DISTRICT TAX RATES
 Year ended June 30, 2007
 (Unaudited)

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
Voted	18.0000	18.0000	18.0000	18.0000	18.0000	18.0000	18.0000	18.0000	18.0000	18.0000
Debt	<u>8.3700</u>	<u>8.3700</u>	<u>8.3000</u>	<u>8.3700</u>	<u>7.6200</u>	<u>7.6200</u>	<u>7.6200</u>	<u>7.6200</u>	<u>7.6200</u>	<u>7.6200</u>
TOTAL HOMESTEAD	8.3700	8.3700	8.3000	8.3700	7.6200	7.6200	7.6200	7.6200	7.6200	7.6200
TOTAL NON-HOMESTEAD	26.3700	26.3700	26.3000	26.3700	25.6200	25.6200	25.6200	25.6200	25.6200	25.6200

The School District's 18 voted mills will expire with the December 1, 2015 levy.

Reeths-Puffer Schools
STATE AID SUMMARY—FUNDS FROM STATE SOURCES
(INCLUDING CATEGORICALS)
 Year ended June 30, 2007
 (Unaudited)

Year ended June 30	Amount
2007	\$ 27,180,912
2006	27,254,704
2005	27,011,561
2004	27,189,187
2003	28,818,493
2002	28,526,784
2001	26,384,304
2000	24,863,874
1999	24,231,566
1998	23,419,609

Reeths-Puffer Schools
OPERATING TAX LEVIES AND COLLECTIONS
Year ended June 30, 2007
(Unaudited)

<u>Year ended June 30</u>	<u>Operating tax levy</u>	<u>Collections to March 1 each year</u>		<u>Collections plus funding to June 30 each year</u>	
2007	\$ 3,303,083	\$ 3,161,616	95.72 %	\$ 3,291,429	99.65 %
2006	3,140,396	2,853,653	90.87	3,027,863	96.42
2005	2,872,000	2,586,392	90.06	2,672,385	93.05
2004	2,698,346	2,585,346	95.81	2,698,346	100.00
2003	2,631,880	2,434,248	92.49	2,631,880	100.00
2002	2,636,540	2,432,577	92.26	2,636,540	100.00
2001	2,549,057	2,096,547	82.25	2,549,057	100.00
2000	2,381,156	2,225,217	93.45	2,361,004	99.15
1999	2,234,917	2,029,263	90.80	2,212,124	98.98
1998	2,231,267	2,046,046	91.70	2,230,558	99.97

Reeths-Puffer Schools
LABOR FORCE
Year ended June 30, 2007
(Unaudited)

A breakdown of the number of employees of Reeths-Puffer Schools (including part-time employees) and their affiliation with organized groups is as follows:

<u>Employees</u>	<u>Number</u>	<u>Bargaining unit</u>	<u>Contract expiration</u>
Administrators	22	Non-Affiliated	N/A
Admin. Office Personnel/Technology	10	Non-Affiliated	N/A
Teachers	251	MEA	8/31/2007
Secretarial/Clerical	27	MEA	6/30/2008
Aides/Paraprofessionals	50	MEA	6/30/2008
Maintenance/Custodial	7	MEA	6/30/2008
Transportation	36	MEA	6/30/2008
Food Service	<u>29</u>	MEA	6/30/2008
TOTAL STAFF	<u><u>432</u></u>		

Reeths-Puffer Schools
PENSION FUND
 Year ended June 30, 2007
 (Unaudited)

For the period from October 1, 2006 through September 30, 2007, the School District will pay an amount equal to 17.74 percent of its employees' wages to the Michigan Public School Employees Retirement System (MPERS) which is administered by the State of Michigan. The following were the applicable contribution rates required by law for the periods:

October 1, 2006—September 30, 2007	17.74 %
October 1, 2005—September 30, 2006	16.34
October 1, 2004—September 30, 2005	14.87
October 1, 2003—September 30, 2004	12.99
October 1, 2002—September 30, 2003	13.16
October 1, 2001—September 30, 2002	12.17
October 1, 2000—September 30, 2001	12.16
October 1, 1999—September 30, 2000	11.66
October 1, 1998—September 30, 1999	10.77

These contributions are required by law. The School District's contributions for the past ten years are shown below. The School District does not have an unfunded accrued liability under MPERS.

Year ending <u>June 30</u>	Paid to <u>pension fund</u>
2007	\$ 3,405,602
2006	3,172,209
2005	2,956,860
2004	2,663,954
2003	2,837,317
2002	2,635,914
2001	2,509,782
2000	2,243,546
1999	1,989,302
1998	2,115,233

Effective January 1, 1987, members of MPERS may irrevocably elect to contribute a percentage of their gross wages on a tax deferred basis to a member investment plan (MIP) which qualifies them for additional benefits. All employees hired after January 1, 1990 will contribute to the plan at a graduated rate of their gross wages. If a member leaves MPERS service before a retirement benefit has vested, the member's accumulated contributions to MIP, plus interest, if any, are refundable.

Reeths-Puffer Schools
DEBT STATEMENT—DIRECT DEBT
Year ended June 30, 2007
(Unaudited)

<u>Dated</u>	<u>Purpose</u>	<u>Type</u>	<u>Interest spread</u>	<u>Maturities</u>	<u>Amount outstanding</u>
03/01/90	Building & Site	GOUTQ	7.8 %	05/01/08-09	\$ 303,774
06/18/92	Building & Site	GOUTQ	6.8-6.85	05/01/13-22	3,804,969
06/18/92	Refunding	GOUTQ	6.8	05/01/13-17	826,235
12/04/01	Building & Site	GOUTQ	3.55-5.5	05/01/08-12	2,650,000
02/24/05	Refunding	GOUTQ	3-5	05/01/08-26	10,155,000
11/22/06	Refunding	GOUTQ	4-4.2	05/01/08-27	5,270,000
02/08/07	Refunding	GOUTQ	4-5	05/01/08-25	<u>32,010,000</u>
NET DIRECT DEBT					<u><u>\$ 55,019,978</u></u>

Reeths-Puffer Schools
SCHOOL BOND LOAN FUND AND SCHOOL LOAN REVOLVING FUND PROGRAMS
Year ended June 30, 2007
(Unaudited)

As of June 30, 2007, the School District has a School Bond Loan Fund balance of \$10,818,395 and a School Loan Revolving Fund balance of \$1,724,659.

The Bonds are fully qualified as of the date of delivery pursuant to Act 108 of the Public Acts of Michigan, 1961, as amended, enacted pursuant to Article IX, Section 16, of the Michigan Constitution of 1963. Under the terms of said constitutional and statutory provisions, if for any reason, the School District will be or is unable to pay the principal and interest on the Bonds when due, the School District shall borrow, and the State of Michigan (State) shall lend to it from the School Bond Loan Fund or School Loan Revolving Fund established by the State, an amount sufficient to enable the School District to make payment. Article IX, Section 16 of the Michigan Constitution, as implemented by Act 112 of the Public Acts of Michigan, 1961, as amended, authorizes the State, without approval of its electors, to borrow from time to time such amounts as shall be required, pledge the State's full faith and credit and issue its notes or bonds therefore, for the purpose of making loans to school districts as provided amounts as shall be required, pledge the State's full faith and credit and issue its notes or bonds therefore, for the purpose of making loans to school districts as provided under such section. Loans to school districts for such purposes are made from the proceeds of such State borrowing.

Complete financial statements of all of the State's funds as included in the State's Comprehensive Annual Financial Report (CAFR) prepared by the State's Department of Management and Budget are available upon request from the Department of Management and Budget, Office of Financial Management, P.O. Box 30026, Lansing, Michigan 48909, telephone (517) 373-1011. The State has agreed to file its CAFR with the Nationally Recognized Securities Information Repositories and the State Information Depository (as described in Rule 15c2-12(b)(5) of the Securities Exchange Commission) annually, so long as any bonds qualified for participation in the School Bond Loan Fund remain outstanding.

Reeths-Puffer Schools
SCHOOL ENROLLMENT
 Year ended June 30, 2007
 (Unaudited)

Historical enrollment for the School District is as follows:

<u>School year</u>	<u>Enrollment</u>	<u>School year</u>	<u>Enrollment</u>
2006/07	4,205	2001/02	4,532
2005/06	4,239	2000/01	4,583
2004/05	4,271	1999/00	4,575
2003/04	4,358	1998/99	4,586
2002/03	4,509	1997/98	4,564

Enrollment by grades—2006/07 is as follows:

Kindergarten	388	Seventh	343
First	280	Eighth	345
Second	294	Ninth	323
Third	273	Tenth	374
Fourth	306	Eleventh	331
Fifth	279	Twelfth	328
Sixth	291	Special Ed.	<u>50</u>
		TOTAL	<u><u>4,205</u></u>

BRICKLEY DeLONG

CERTIFIED PUBLIC ACCOUNTANTS

August 30, 2007

Board of Education and
Stephen E. Cousins
Reeths-Puffer Schools
Muskegon, Michigan

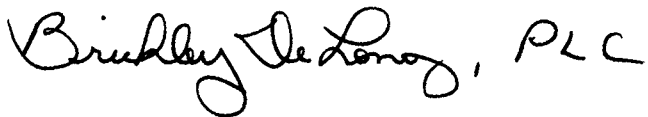
In planning and performing our audit of the financial statements of Reeths-Puffer Schools as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Reeths-Puffer Schools' internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we identified the attached deficiencies in internal control that we consider to be significant deficiencies.

This communication is intended solely for the information and use of the Board of Education, management, others within the Organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



SIGNIFICANT DEFICIENCIES

Recommendation 1: The School District should establish procedures to ensure compliance with Title I time certification requirements and timely updating of payroll allocations.

During our tests of compliance with federal program requirements, we noted that the School District did not comply with Title I time certification requirements and did not timely update payroll allocations.

The establishment of procedures for compliance with time certification and timely updating of payroll allocations would ensure compliance with federal program cost requirements and would reduce the possibility of federal disallowance of reported federal program expenditures.

Reeths-Puffer Schools
**SINGLE AUDIT OF FEDERAL
FINANCIAL ASSISTANCE PROGRAMS**

Financial Report and
Independent Auditors' Reports

June 30, 2007

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BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

August 30, 2007

Board of Education
Reeths-Puffer Schools
Muskegon, Michigan

We have audited the financial statements of Reeths-Puffer Schools as of and for the year ended June 30, 2007 and have issued our report thereon dated August 30, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Reeths-Puffer Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Reeths-Puffer Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Reeths-Puffer Schools' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying Schedule of Findings and Responses as Finding 2 to be a significant deficiency in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Board of Education
August 30, 2007
Page 2

Internal Control Over Financial Reporting—Continued

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

Compliance

As part of obtaining reasonable assurance about whether Reeths-Puffer Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described as Finding 1 in Part B of the accompanying Schedule of Findings and Responses.

Reeths-Puffer Schools' response to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit Reeths-Puffer Schools' response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Handwritten signature of Brickley DeLong, PLC in black ink.

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

August 30, 2007

Board of Education
Reeths-Puffer Schools
Muskegon, Michigan

Compliance

We have audited the compliance of Reeths-Puffer Schools with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. Reeths-Puffer Schools' major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Responses. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Reeths-Puffer Schools' management. Our responsibility is to express an opinion on Reeths-Puffer Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Reeths-Puffer Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Reeths-Puffer Schools' compliance with those requirements.

As described in Finding 1 in Parts B and C of the accompanying Schedule of Findings and Responses, Reeths-Puffer Schools did not comply with requirements regarding Allowable Costs/Cost Principles that are applicable to its U.S. Department of Education Title I, Part A. Compliance with such requirements is necessary, in our opinion, for Reeths-Puffer Schools to comply with requirements applicable to that program.

In our opinion, except for noncompliance described in the preceding paragraph, Reeths-Puffer Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of Reeths-Puffer Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Reeths-Puffer Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Reeths-Puffer Schools' internal control over compliance.

Board of Education
August 30, 2007
Page 2

Internal Control Over Compliance—Continued

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in Parts B and C in the accompanying Schedule of Findings and Responses as Finding 2 to be a significant deficiency.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider the deficiency described in the accompanying Schedule of Findings and Responses to be a material weakness.

Reeths-Puffer Schools' response to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit Reeths-Puffer Schools' response and, accordingly, we express no opinion on it.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of Reeths-Puffer Schools as of and for the year ended June 30, 2007 and have issued our report thereon dated August 30, 2007. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Reeths-Puffer Schools
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2007

Federal grantor/pass-through grantor/program title	Federal CFDA number	Entitlement program or award amount	Accrued (deferred) revenue July 1, 2006	Cash or payments in kind received (cash basis)	Expenditures (accrual basis)			Accrued (deferred) revenue June 30, 2007	Notes
					Prior year	Current year	Total		
<i>U.S. Department of Education</i>									
Direct program:									
Indian Education Title IV, Part A	84.060A								
S060A010736		\$ 24,937	\$ -	\$ -	\$ 23,547	\$ -	\$ 23,547	\$ -	3
B060A050736		24,239	24,239	24,239	24,239	-	24,239	-	
S060A060736		24,850	-	16,000	-	24,850	24,850	8,850	
Total direct programs		74,026	24,239	40,239	47,786	24,850	72,636	8,850	
Passed through Michigan									
Department of Education:									
Title I Part A	84.010								
051530 0506		50,764	50,764	50,764	50,764	-	50,764	-	
061530 0506		269,692	116,342	112,183	269,692	(4,159)	265,533	-	4
061530 0607		45,415	-	38,300	-	45,415	45,415	7,115	
071530 0607		283,805	-	212,257	-	268,281	268,281	56,024	
		649,676	167,106	413,504	320,456	309,537	629,993	63,139	
Title V LEA Allocation	84.298								
070250 0607		863	-	863	-	863	863	-	
Service Provider Self Review									
070440 0607	84.027A	5,500	-	5,300	-	5,300	5,300	-	
Technology Literacy Challenge Grant	84.318								
074290 0607		3,192	-	3,192	-	3,192	3,192	-	
Improving Teacher Quality	84.367								
060520 0506		163,718	70,623	70,623	163,718	-	163,718	-	
070520 0607		162,271	-	145,205	-	162,271	162,271	17,066	
		325,989	70,623	215,828	163,718	162,271	325,989	17,066	
Total passed through Michigan Department of Education		985,220	237,729	638,687	484,174	481,163	965,337	80,205	

Reeths-Puffer Schools
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS—CONTINUED
For the year ended June 30, 2007

Federal grantor/pass-through grantor/program title	Federal CFDA number	Entitlement program or award amount	Accrued (deferred) revenue July 1, 2006	Cash or payments in kind received (cash basis)	Expenditures (accrual basis)			Accrued (deferred) revenue June 30, 2007	Notes
					Prior year	Current year	Total		
U.S. Department of Education—Continued									
Passed through Muskegon Area Intermediate School District:									
Special Education Cluster									
I.D.E.A. 101-476	84.027								
0455		\$ 1,794,202	\$ 17,259	\$ 17,259	\$ 1,794,202	\$ -	\$ 1,794,202	\$ -	
0456		1,502,247	15,419	350,730	1,082,199	420,048	1,502,247	84,737	5
0457		1,407,120	-	966,705	-	1,283,281	1,283,281	316,576	
		4,703,569	32,678	1,334,694	2,876,401	1,703,329	4,579,730	401,313	
I.D.E.A. 101-476	84.173								
0466		100,551	1,500	1,500	97,492	1,341	98,833	1,341	
0467		95,517	-	72,563	-	93,534	93,534	20,971	
		196,068	1,500	74,063	97,492	94,875	192,367	22,312	
Total Special Education Cluster		4,899,637	34,178	1,408,757	2,973,893	1,798,204	4,772,097	423,625	
Safe and Drug Free Schools and Communities	84.186								
		10,780	-	10,780	-	10,780	10,780	-	
Total passed through Muskegon Area Intermediate School District		4,910,417	34,178	1,419,537	2,973,893	1,808,984	4,782,877	423,625	
Total U.S. Department of Education		5,969,663	296,146	2,098,463	3,505,853	2,314,997	5,820,850	512,680	
U.S. Department of Agriculture									
Passed through Michigan Department of Education:									
National School Lunch and Breakfast									
Entitlement commodities	10.550	65,304	-	65,304	-	65,304	65,304	-	
Bonus commodities		534	-	534	-	534	534	-	
		65,838	-	65,838	-	65,838	65,838	-	

Reeths-Puffer Schools
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS—CONTINUED
For the year ended June 30, 2007

Federal grantor/pass-through grantor/program title	Federal CFDA number	Entitlement program or award amount	Accrued (deferred) revenue July 1, 2006	Cash or payments in kind received (cash basis)	Expenditures (accrual basis)			Accrued (deferred) revenue June 30, 2007	Notes
					Prior year	Current year	Total		
<i>U.S. Department of Agriculture—Continued</i>									
Child Nutrition Cluster									
061970 Lunch—Breakfast	10.553	\$ 88,738	\$ -	\$ 7,207	\$ 81,531	\$ 7,207	\$ 88,738	\$ -	
071970 Lunch—Breakfast		83,447	-	83,447	-	83,447	83,447	-	
		172,185	-	90,654	81,531	90,654	172,185	-	
061950 All lunches	10.555	77,407	-	8,606	68,801	8,606	77,407	-	
071950 All lunches		68,924	-	68,924	-	68,924	68,924	-	
061960 Free and reduced		324,982	-	37,457	287,525	37,457	324,982	-	
071960 Free and reduced		304,515	-	304,515	-	304,515	304,515	-	
		775,828	-	419,502	356,326	419,502	775,828	-	
Total Child Nutrition Cluster		948,013	-	510,156	437,857	510,156	948,013	-	
Total passed through U.S. Department of Education		1,013,851	-	575,994	437,857	575,994	1,013,851	-	
Passed through County of Muskegon:									
Schools and Roads	10.665	326	-	326	-	326	326	-	
Total U.S. Department of Agriculture		1,014,177	-	576,320	437,857	576,320	1,014,177	-	
<i>U.S. Department of Health and Human Services</i>									
Passed through Muskegon Area Intermediate School District:									
Medical Assistance Program Title XIX 393	93.778	34,936	-	34,936	-	34,936	34,936	-	
<i>Corporation for National and Community Service</i>									
Passed through North Muskegon Public Schools:									
AmeriCorps Learn and Serve 2005-2006	94.004	17,538	-	17,538	-	17,538	17,538	-	
TOTAL FEDERAL ASSISTANCE		\$ 7,036,314	\$ 296,146	\$ 2,727,257	\$ 3,943,710	\$ 2,943,791	\$ 6,887,501	\$ 512,680	

Reeths-Puffer Schools
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2007

1. Please see the financial statement footnotes for the significant accounting policies used in preparing this schedule.
2. Management has utilized the Grant Auditor Report in preparing the Schedule of Expenditures of Federal Awards.
3. Deferred revenue of \$1,390 as of July 1, 2006 was not deducted from a subsequent payment.
4. School District overrequested \$4,159 as of June 30, 2006 which the State deducted from a subsequent payment.
5. Accrued revenue as of July 1, 2006 was overstated by \$147.
6. Reconciliation of revenues from federal sources per governmental funds financial statements and expenditures per single audit report Schedule of Expenditures of Federal Awards.

Revenues from federal sources per June 30, 2007

Governmental funds financial statements

General Fund	\$ 2,367,797	
Other governmental funds (includes Food Service Fund)	<u>575,994</u>	\$ <u>2,943,791</u>

Expenditures per single audit report

Schedule of Expenditures of Federal Awards		\$ <u>2,943,791</u>
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Reeths-Puffer Schools
SCHEDULE OF FINDINGS AND RESPONSES
Year ended June 30, 2007

A. SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of Reeths-Puffer Schools.
2. *One (1)* significant deficiency disclosed during the audit of the financial statements is reported in the Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* and is reported in Part B of this schedule. This significant deficiency is not reported as a material weakness.
3. *One (1)* instance of noncompliance material to the financial statements of Reeths-Puffer Schools was disclosed during the audit and is reported in Part B of this schedule.
4. *One (1)* significant deficiency disclosed during the audit of the major federal award programs is reported in the Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133 and is reported in Parts B and C of this schedule. The significant deficiency is not reported as a material weakness.
5. The auditors' report on compliance for the major federal award programs for Reeths-Puffer Schools expresses a qualified opinion.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this schedule.
7. The programs tested as major programs were:

<u>Name</u>	<u>CFDA Number</u>
<i>U.S. Department of Education</i>	
Title I, Part A	84.010
Special Education Cluster	84.027 and 84.173

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Reeths-Puffer Schools was determined to be a low-risk auditee.

Reeths-Puffer Schools
SCHEDULE OF FINDINGS AND RESPONSES—CONTINUED
Year ended June 30, 2007

B. FINDINGS RELATING TO THE AUDIT OF THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

COMPLIANCE

U.S. Department of Education

Fiscal 2007 Finding No. 1: Title I, Part A

Pass-through entity: Michigan Department of Education

CFDA: 84.010

Award Numbers: 061530 0506, 061530 0607 and 071530 0607

Award Year Ends: September 30, 2006, June 30, 2007 and September 30, 2007

Specific Requirement: Allowable Costs/Cost Principles

Criteria: The cost principle of OMB Circular A-87 requires, "...Where employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee." In addition, OMB Circular A-87 requires, "...Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards."

Condition: Not all employees working 100% in Title I have required semi-annual certifications. Employees partially funded by Title I did not have adequate supporting documentation at least monthly. Amounts charged to payroll did not always reflect the percentage of time charged to the Title I program on a timely basis.

Cause: The program director and staff did not have a clear understanding of current certification documentation and payroll allocation requirements.

Questioned Costs: \$194,146, which represents salaries, payroll taxes and benefits charged to the Title I program for all individuals not having adequate documentation.

Context: All but one employee charged to the Title I program did not have adequate documentation and payroll allocations were not updated timely.

Effect: The condition appears to be systemic, as all but one employee charged to the Title I program did not have adequate documentation and payroll allocations were not timely updated.

Reeths-Puffer Schools
SCHEDULE OF FINDINGS AND RESPONSES—CONTINUED
Year ended June 30, 2007

B. FINDINGS RELATING TO THE AUDIT OF THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

COMPLIANCE—Continued

U.S. Department of Education

Fiscal 2007 Finding No. 1: Title I, Part A—Continued

Recommendation: The School District should establish procedures to ensure compliance with Title I time certification requirements and timely updating of payroll allocations.

School District Response: Certification of schedules were completed and certified at the beginning of each semester for staff working 100% in the Title I program. All but, one staff working less than 100% of their time in the Title I program did maintain a log or calendar indicating the time spent on Title I programs. All but one instructional staff working less than 100% in the Title I program also completed schedule certification at the start of each semester. Their schedules were fixed for the semester and did not vary from week to week. Other staff working less than part-time in the Title I program did maintain logs or work calendars indicating the amount of time they worked on the Title I program. These logs or work calendars, however, were not certified by the staff nor did they reflect the amount of time spent on non-Title I programs.

The School District's Title I program director and finance staff have been made aware of time certification requirements and timely updating of payroll allocations. Procedures are in the process of being developed to ensure compliance with Title I time certification requirements and timely updating of payroll allocations.

Procedures will address semi-annual certifications for staff working 100% in Title I and will also detail the monthly certification process for staff working less than 100%. The Title I program director will develop a form to be used by staff working less than 100% in the Title I program. Any deviation from the approved form will require approval of the Title I program director and assistant superintendent of finance and operations.

Compliance with the time certification process will be monitored by the program director. Once the certification is reviewed and approved, it will be forwarded to the finance department for timely updating of the payroll allocations.

Reeths-Puffer Schools
SCHEDULE OF FINDINGS AND RESPONSES—CONTINUED
Year ended June 30, 2007

B. FINDINGS RELATING TO THE AUDIT OF THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

SIGNIFICANT DEFICIENCIES

Fiscal 2007 Finding No. 2: Procedures for Title I, Part A Allowable Costs

Criteria: The School District should comply with OMB A-87 cost principles in relation to time certification and allocation of payroll costs to the Title I program.

Condition: As noted in Fiscal 2007 Finding No. 1, the School District did not comply with Title I, Part A time certification and payroll allocation requirements.

Cause: School District Title I, Part A personnel do not appear to have a clear understanding of certification documentation and allocation requirements.

Effect: The School District did not comply with time certification and payroll allocation requirements.

Recommendation: As also recommended in Fiscal 2007 Finding No. 1, the School District should establish procedures to ensure compliance with Title I time certification requirements and timely updating of payroll allocations.

School District Response: Certification of schedules were completed and certified at the beginning of each semester for staff working 100% in the Title I program. All but one staff working less than 100% of their time in the Title I program did maintain a log or calendar indicating the time spent on Title I programs. All but one instructional staff working less than 100% in the Title I program also completed schedule certification at the start of each semester. Their schedules were fixed for the semester and did not vary from week to week. Other staff working less than part-time in the Title I program did maintain logs or work calendars indicating the amount of time they worked on the Title I program. These logs or work calendars, however, were not certified by the staff nor did they reflect the amount of time spent on non-Title I programs.

The School District's Title I program director and finance staff have been made aware of time certification requirements and timely updating of payroll allocations. Procedures are in the process of being developed to ensure compliance with Title I time certification requirements and timely updating of payroll allocations.

Procedures will address semi-annual certifications for staff working 100% in Title I and will also detail the monthly certification process for staff working less than 100%. The Title I program director will develop a form to be used by staff working less than 100% in the Title I program. Any deviation from the approved form will require approval of the Title I program director and assistant superintendent of finance and operations.

Compliance with the time certification process will be monitored by the program director. Once the certification is reviewed and approved, it will be forwarded to the finance department for timely updating of the payroll allocations.

Reeths-Puffer Schools
SCHEDULE OF FINDINGS AND RESPONSES—CONTINUED
Year ended June 30, 2007

**C. FINDINGS RELATING TO THE MAJOR FEDERAL AWARD PROGRAMS AUDIT, WHICH
ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH OMB CIRCULAR A-133**

COMPLIANCE

See Finding 1 in Part B above.

SIGNIFICANT DEFICIENCIES

See Finding 2 in Part B above.

CLIENT DOCUMENTS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

August 30, 2007

Michigan Department of Education
Lansing, Michigan

Reeths-Puffer Schools respectfully submits the following summary of the current status of prior audit findings contained in the single audit report for the year ended June 30, 2006 dated September 7, 2006.

B. FINDINGS—FINANCIAL STATEMENT AUDIT

COMPLIANCE

There were *no* compliance findings in relation to the financial statements.

REPORTABLE CONDITIONS

Fiscal 2006 Finding No. 1: Documentation of Vendor Credit Card Transaction Procedures

Condition: Of the sixty-four vendor card transactions selected for testing, we noted that thirty-four such vendor card transactions did not have documentation supporting the business purpose, sixteen did not have adequate receipts and none had documented approval.

Recommendation: Vendor credit card invoices should have documentation supporting business purpose and approval for payment prior to check preparation.

Current Status: The School District implemented this recommendation in fiscal 2006. *No* similar finding was reported in the single audit for the year ended June 30, 2007.

Michigan Department of Education

August 30, 2007

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C. FINDINGS—MAJOR FEDERAL AWARD PROGRAMS

COMPLIANCE

There were *no* compliance findings reported in relation to major federal award programs.

REPORTABLE CONDITIONS

There were *no* reportable conditions reported in relation to major federal award programs.

Sincerely,

A handwritten signature in black ink, appearing to read "Stephen E. Cousins", with a stylized flourish at the end.

Stephen E. Cousins
Superintendent

CORRECTIVE ACTION PLAN

August 30, 2007

Michigan Department of Education
Lansing, Michigan

Reeths-Puffer Schools respectfully submits the following Corrective Action Plan for the year ended June 30, 2007.

Name and address of independent public accounting firm:

Brickley DeLong, PLC
P.O. Box 999
Muskegon, Michigan 49443

Audit period: June 30, 2007

The findings from the Schedule of Findings and Responses for the year ended June 30, 2007 are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

B. FINDINGS—FINANCIAL STATEMENT AUDIT

COMPLIANCE

U.S. Department of Education

Fiscal 2007 Finding No. 1: Title I Allowable Costs/Cost Principles

Recommendation: The School District should establish procedures to ensure compliance with Title I certification requirements and timely updating of payroll allocations.

Action Taken: The School District's Title I program director and finance staff have been made aware of time certification requirements and timely updating of payroll allocations. Procedures are in the process of being developed to ensure compliance with Title I time certification requirements and timely updating of payroll allocations.

Procedures will address semi-annual certifications for staff working 100% in Title I and will also detail the monthly certification process for staff working less than 100%. The Title I program director will develop a form to be used by staff working less than 100% in the Title I program. Any deviation from the approved form will require approval of the Title I program director and assistant superintendent of finance and operations.

B. FINDINGS—FINANCIAL STATEMENT AUDIT—Continued

SIGNIFICANT DEFICIENCIES

Fiscal 2007 Finding No. 2: Procedures for Title I, Part A Allowable Costs

Recommendation: As also recommended in Fiscal 2007 Finding No. 1, the School District should establish procedures to ensure compliance with Title I time certification and timely updating of payroll allocations.

Action Taken: The School District's Title I program director and finance staff have been made aware of time certification requirements and timely updating of payroll allocations. Procedures are in the process of being developed to ensure compliance with Title I time certification requirements and timely updating of payroll allocations.

Procedures will address semi-annual certifications for staff working 100% in Title I and will also detail the monthly certification process for staff working less than 100%. The Title I program director will develop a form to be used by staff working less than 100% in the Title I program. Any deviation from the approved form will require approval of the Title I program director and assistant superintendent of finance and operations.

C. FINDINGS—MAJOR FEDERAL AWARD PROGRAMS AUDITS

COMPLIANCE

See Fiscal 2007 Finding No. 1 in Part B above.

SIGNIFICANT DEFICIENCIES

See Fiscal 2007 Finding No. 2 in Part B above.

If the Michigan Department of Education has questions regarding this plan, please call Stephen E. Cousins at (231) 744-4736.

Sincerely,



Stephen E. Cousins
Superintendent